# VERMONT STUDENT ASSISTANCE CORPORATION

(A Component Unit of the State of Vermont)

Financial Statements

June 30, 2000

(With Comparative Information for 1999)

(With Independent Auditors' Report Thereon)

**VERMONT STUDENT ASSISTANCE CORPORATION**

(A Component Unit of the State of Vermont)

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**Independent Auditors' Report**

The Board of Directors
Vermont Student Assistance Corporation:

We have audited the accompanying balance sheet of the Vermont Student Assistance Corporation (a component unit of the State of Vermont) as of June 30, 2000, and the related statements of revenues, expenses, and changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of Vermont Student Assistance Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Vermont Student Assistance Corporation at June 30, 2000, and its revenues, expenses and changes in fund balances and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2000 on our consideration of Vermont Student Assistance Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be read in conjunction with this report in considering the results of our audit.

September 1, 2000

**VERMONT STUDENT ASSISTANCE CORPORATION**

(A Component Unit of the State of Vermont)

Balance Sheet

June 30, 2000

(With Comparative Totals for June 30, 1999)

| | 2000 | | | | | 1999 |
|---|---|---|---|---|---|---|
| | | | | | (Memorandum Only) | |
| **Assets** | **General Fund** | **Loan Finance Fund** | **Federal Loan Reserve Fund** | **VT Higher Education Savings Plan** | **Total** | **Total** |
| Cash and cash equivalents (note 3) | $ 2,318,067 | 239,528,353 | 6,289,013 | 9,581 | 248,145,014 | 146,907,889 |
| Investments (note 3) | — | 25,663,445 | — | 1,222,698 | 26,886,143 | 37,556,703 |
| Receivables: | | | | | | |
| Investment interest | 6,904 | 1,225,888 | 62,013 | 57 | 1,294,862 | 623,077 |
| Student loans (notes 4 and 5) | — | 760,469,981 | — | 103,588 | 760,573,569 | 675,506,082 |
| Student loan interest and special allowance (note 7) | — | 22,958,763 | — | 804 | 22,959,567 | 19,203,252 |
| Federal administrative and program fees | 321,995 | — | — | — | 321,995 | 850,394 |
| Grants and other | 415,220 | 60,471 | 225,746 | 103 | 701,540 | 421,604 |
| Due from other funds | 4,748,274 | 4,056,792 | — | — | 8,805,066 | 9,364,711 |
| Federal reinsurance receivable (note 5) | — | — | 1,626,305 | — | 1,626,305 | 1,641,135 |
| Property and equipment (note 9) | 2,639,376 | 1,882,175 | — | — | 4,521,551 | 3,448,072 |
| Deferred bond issuance costs, less accumulated amortization of $3,668,617 | — | 5,173,193 | — | — | 5,173,193 | 4,645,553 |
| Other assets | 241,171 | 890,784 | — | — | 1,131,955 | 945,672 |
| Total assets | $ 10,691,007 | 1,061,909,845 | 8,203,077 | 1,336,831 | 1,082,140,760 | 901,114,144 |

See accompanying notes to financial statements.

| | 2000 | | | | | 1999 |
|---|---|---|---|---|---|---|
| | | | | | (Memorandum Only) | |
| **Liabilities and Fund Balances** | **General Fund** | **Loan Finance Fund** | **Federal Loan Reserve Fund** | **VT Higher Education Savings Plan** | **Total** | **Total** |
| Bonds and notes payable (note 12) | $ — | 984,055,576 | — | — | 984,055,576 | 811,598,072 |
| Accounts payable and other liabilities | 1,558,108 | 287,213 | 34,632 | 4,369 | 1,884,322 | 2,776,844 |
| Grants and scholarships payable | 1,127,126 | — | — | — | 1,127,126 | 677,872 |
| Accrued interest on bonds payable | — | 2,852,309 | — | — | 2,852,309 | 1,794,291 |
| U.S. Treasury rebates payable (note 13) | — | 17,270,413 | — | — | 17,270,413 | 17,189,687 |
| Federal advances (note 8) | — | — | 538,194 | — | 538,194 | 538,194 |
| Due to other funds | 4,056,792 | 4,748,274 | — | — | 8,805,066 | 9,364,711 |
| Due to U.S. Department of Education | — | — | 213,442 | — | 213,442 | 265,127 |
| Federal Fund liability (note 14) | — | — | 5,270,504 | — | 5,270,504 | 4,437,521 |
| Assets managed on behalf of others (note 16) | — | — | — | 1,332,462 | 1,332,462 | — |
| Return of reserve due to U.S.D.E. (note 6) | — | — | 2,146,305 | — | 2,146,305 | 2,146,305 |
| Total liabilities | 6,742,026 | 1,009,213,785 | 8,203,077 | 1,336,831 | 1,025,495,719 | 850,788,624 |
| Fund balances: | | | | | | |
| Restricted: | | | | | | |
| Bond resolution | — | 42,948,185 | — | — | 42,948,185 | 36,473,534 |
| Loan guarantees | 919,628 | — | — | — | 919,628 | — |
| Grants and scholarships | 69,511 | — | — | — | 69,511 | 59,106 |
| Unrestricted | 320,466 | — | — | — | 320,466 | 2,097,322 |
| Unrestricted - designated for future bond issuances (note 11) | — | 7,865,700 | — | — | 7,865,700 | 8,247,486 |
| Net investment in property and equipment | 2,639,376 | 1,882,175 | — | — | 4,521,551 | 3,448,072 |
| Total fund balances | 3,948,981 | 52,696,060 | — | — | 56,645,041 | 50,325,520 |
| Commitments and contingencies (notes 17 and 18) | | | | | | |
| Total liabilities and fund balances | $ 10,691,007 | 1,061,909,845 | 8,203,077 | 1,336,831 | 1,082,140,760 | 901,114,144 |

See accompanying notes to financial statements.

**VERMONT STUDENT ASSISTANCE CORPORATION**

(A Component Unit of the State of Vermont)

Statement of Revenues, Expenses and Changes in Fund Balances

Year ended June 30, 2000

(With Comparative Totals for June 30, 1999)

| | 2000 | | | 1999 |
|---|---|---|---|---|
| | | Loan | (Memorandum Only) | |
| | General | Finance | | |
| | Fund | Fund | Total | Total |
| Revenues: | | | | |
| U.S. Department of Education: | | | | |
| Interest (note 7) | $ — | 10,825,545 | 10,825,545 | 11,066,923 |
| Special allowance (note 7) | — | 9,794,870 | 9,794,870 | 4,404,137 |
| Interest on investments | 214,993 | 7,712,147 | 7,927,140 | 11,178,054 |
| Interest and other charges on student loans, net | — | 44,026,440 | 44,026,440 | 39,821,166 |
| State appropriations | 13,831,839 | — | 13,831,839 | 12,926,951 |
| Loan administrative fees | — | — | — | 362,085 |
| Federal reinsurance | — | — | — | 2,012,042 |
| Consolidation fees | 316,531 | — | 316,531 | 47,893 |
| Default aversion fee | 593,705 | — | 593,705 | 723,961 |
| Federal administrative and program fees | 1,603,167 | — | 1,603,167 | 1,587,545 |
| Collections on defaulted loans, net | 1,662,427 | — | 1,662,427 | 1,702,818 |
| Loan rehabilitation and repurchase revenue | 1,474,213 | — | 1,474,213 | 1,027,301 |
| Federal grants | 1,725,800 | — | 1,725,800 | 1,327,050 |
| Scholarship income | 1,926,962 | — | 1,926,962 | 2,097,166 |
| Software sales and maintenance | 490,500 | — | 490,500 | — |
| Other income | 560,730 | 743 | 561,473 | 491,303 |
| Total revenues | 24,400,867 | 72,359,745 | 96,760,612 | 90,776,395 |
| Expenses: | | | | |
| Salaries and benefits | 3,837,630 | 9,406,688 | 13,244,318 | 11,324,904 |
| Other general and administrative | 1,328,766 | 3,135,585 | 4,464,351 | 3,384,997 |
| State grants and scholarships | 15,985,681 | — | 15,985,681 | 15,269,901 |
| Purchases of defaulted loans | — | — | — | 2,032,691 |
| Reimbursement of collections to U.S.D.E. | 1,566,572 | — | 1,566,572 | 1,460,618 |
| Loan rehabilitation and repurchases to U.S.D.E. | 1,166,974 | — | 1,166,974 | 817,984 |
| Interest rebated to borrowers (note 13) | — | 9,347,263 | 9,347,263 | 8,333,476 |
| Interest subject to U.S. Treasury rebate (note 13) | — | 84,189 | 84,189 | 5,911,841 |
| Interest, net of amortization of discount/premium | — | 35,862,726 | 35,862,726 | 32,394,689 |
| Credit enhancement and remarketing fees | — | 3,105,251 | 3,105,251 | 3,077,988 |
| Consolidation and lender paid fees | — | 3,100,787 | 3,100,787 | 2,476,242 |
| Other loan financing expense | — | 201,166 | 201,166 | 86,105 |
| Depreciation and amortization | 1,125,353 | 720,000 | 1,845,353 | 1,799,566 |
| Amortization of bond issuance costs | — | 466,460 | 466,460 | 473,236 |
| Total expenses | 25,010,976 | 65,430,115 | 90,441,091 | 88,844,238 |
| Excess (deficiency) of revenues over expenses | (610,109) | 6,929,630 | 6,319,521 | 1,932,157 |
| Transfers (to) from other funds | 507,972 | (507,972) | — | — |
| Net increase (decrease) in fund balance before extraordinary item | (102,137) | 6,421,658 | 6,319,521 | 1,932,157 |
| Extraordinary item: | | | | |
| Reauthorization adjustment (note 14) | — | — | — | (2,796,353) |
| Net increase (decrease) in fund balance | (102,137) | 6,421,658 | 6,319,521 | (864,196) |
| Fund balances at beginning of year | 4,051,118 | 46,274,402 | 50,325,520 | 51,189,716 |
| Fund balances at end of year | $ 3,948,981 | 52,696,060 | 56,645,041 | 50,325,520 |

See accompanying notes to financial statements.

**VERMONT STUDENT ASSISTANCE CORPORATION**

(A Component Unit of the State of Vermont)

Statement of Cash Flows

Year ended June 30, 2000

(With Comparative Totals for June 30, 1999)

| | 2000 | | | 1999 |
|---|---|---|---|---|
| | | | (Memorandum Only) | |
| | General Fund | Loan Finance Fund | Total | Total |
| Cash flows from operating activities: | | | | |
| Cash received from customers | $ 11,751,717 | 151,537,095 | 163,288,812 | 149,429,470 |
| Cash paid to suppliers for goods and services | (18,901,110) | (56,514,294) | (75,415,404) | (65,918,943) |
| Loans made | — | (218,117,041) | (218,117,041) | (230,756,143) |
| Cash paid to employees for services | (3,837,631) | (9,406,687) | (13,244,318) | (13,506,488) |
| Interest received | — | 41,928,855 | 41,928,855 | 35,021,373 |
| VT State appropriation received | 13,831,839 | — | 13,831,839 | 12,926,951 |
| Net cash provided by (used in) operating activities | 2,844,815 | (90,572,072) | (87,727,257) | (112,803,780) |
| Cash flows from noncapital financing activities: | | | | |
| Proceeds from sale of notes/bonds payable | — | 216,035,000 | 216,035,000 | 17,560,000 |
| Payments on notes/bonds | — | (43,485,000) | (43,485,000) | (17,727,460) |
| Net cash provided by (used in) financing activities | — | 172,550,000 | 172,550,000 | (167,460) |
| Cash flows from capital and related financing activities: | | | | |
| Acquisition and construction of fixed assets | (1,870,038) | (1,048,795) | (2,918,833) | (2,181,733) |
| Net cash used in capital and related financing activities | (1,870,038) | (1,048,795) | (2,918,833) | (2,181,733) |
| Cash flows from investing activities: | | | | |
| Interest received on investments | 211,745 | 7,066,564 | 7,278,309 | 10,602,711 |
| Redemption of investments (NET) | — | 10,900,000 | 10,900,000 | — |
| Net cash provided by investing activities | 211,745 | 17,966,564 | 18,178,309 | 10,602,711 |
| Net increase (decrease) in cash and cash equivalents | 1,186,522 | 98,895,697 | 100,082,219 | (104,550,262) |
| Cash and cash equivalents at June 30, 1999 | 1,131,545 | 140,632,656 | 141,764,201 | 246,314,463 |
| Cash and cash equivalents at June 30, 2000 | $ 2,318,067 | 239,528,353 | 241,846,420 | 141,764,201 |

**VERMONT STUDENT ASSISTANCE CORPORATION**

(A Component Unit of the State of Vermont)

Statement of Cash Flows, Continued

| | 2000 | | | 1999 |
|---|---|---|---|---|
| | | | (Memorandum Only) | |
| | General Fund | Loan Finance Fund | Total | Total |
| Reconciliation of operating income to net cash by operating activities: | | | | |
| Excess (deficiency of revenues over expenses | $ (610,109) | 6,929,630 | 6,319,521 | 832,363 |
| Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by (used in) operating activities: | | | | |
| Transfers (to) from other funds | 507,972 | (507,972) | — | 745,450 |
| Depreciation and amortization | 1,125,353 | 720,000 | 1,845,353 | 1,799,565 |
| Amortization of bond issuance costs | — | 466,460 | 466,460 | 473,236 |
| Amortization of bond discount/premium | — | (92,496) | (92,496) | (120,750) |
| Investment interest received | (211,745) | (7,066,564) | (7,278,309) | (10,602,711) |
| Changes in assets and liabilities: | | | | |
| Increase in investment interest receivable | (3,248) | (645,583) | (648,831) | (512,787) |
| Increase in student loans receivable | — | (84,963,899) | (84,963,899) | (104,461,211) |
| Increase in student loan interest and special allowance receivables | — | (3,755,511) | (3,755,511) | (1,562,966) |
| Decrease (increase) in federal administrative and program fees | 528,399 | — | 528,399 | (850,394) |
| Decrease (increase) in grants and other receivables | (162,270) | 79,617 | (82,653) | 65,630 |
| Decrease (increase) in due from other funds | 1,154,122 | (595,185) | 558,937 | (5,127,571) |
| Increase in deferred bond issuance costs | — | (994,100) | (994,100) | — |
| Decrease (increase) in other assets | (122,570) | (63,713) | (186,283) | 33,010 |
| Increase (decrease) in accounts payable and other liabilities | (139,673) | (67,398) | (207,071) | 782,257 |
| Increase in grants and scholarships payable | 449,254 | — | 449,254 | 447,746 |
| Increase (decrease) in accrued interest on bonds payable | — | 1,058,018 | 1,058,018 | (158,388) |
| Decrease in borrower rebates payable | — | — | — | (4,492,504) |
| Increase in U.S. Treasury rebates payable | — | 80,726 | 80,726 | 4,837,839 |
| Increase (decrease) in due to other funds | 594,457 | (1,154,102) | (559,645) | 4,803,279 |
| Increase (decrease) in due to U.S. Department of Education | (265,127) | — | (265,127) | 265,127 |
| Total adjustments | 3,454,924 | (97,501,702) | (94,046,778) | (113,636,143) |
| Net cash provided by (used in) operating activities | $ 2,844,815 | (90,572,072) | (87,727,257) | (112,803,780) |

See accompanying notes to financial statements.

## (1) Authorizing Legislation and Nature of Funds

### *(a) Authorizing Legislation*

The Vermont Student Assistance Corporation ("VSAC") was created as a public non-profit corporation by an act of the General Assembly of the State of Vermont in accordance with the provisions of the Higher Education Act of 1965, as amended ("the Act"). The purpose of VSAC is to provide opportunities for Vermont residents to pursue post-secondary education by awarding grants and guaranteeing, making, financing, and servicing loans to students. VSAC also administers scholarships, student employment programs, and outreach services to students seeking post-secondary education. In addition, VSAC manages the Vermont Higher Education Savings Plan.

Pursuant to Vermont statutes, VSAC is responsible for the administration of the Loan Finance Program. Under this program, VSAC originates, purchases, services and consolidates education loans. The loans are financed through the issuance of limited obligation bonds and are guaranteed by VSAC as a guarantor and/or reinsured by the U.S. Department of Education through the Federal Family Education Loan (FFEL) Program. The bonds outstanding are payable primarily from interest and principal repayments on the financed loans as specified in the underlying resolutions authorizing the sale of the bonds. The bonds are not a general obligation of VSAC or an obligation of the State of Vermont or any of its political subdivisions.

As required by generally accepted accounting principles, VSAC is considered a component unit of the State of Vermont and is included as part of the State's financial reporting entity. VSAC's relationship with the State primarily consists of an annual appropriation designated for grant aid to Vermont students.

### *(b) Basis of Presentation and Nature of Funds*

The Higher Education Amendments of 1998 (1998 Amendments) were enacted on October 6, 1998, with an effective date of October 1, 1998 and changed the manner in which the FFEL program is administered. In accordance with the 1998 Amendments VSAC established a Federal Loan Reserve Fund (Federal Fund) and a Guaranty Agency Operating Fund as required to account for FFEL program activities. The Federal Fund assets and earnings on those assets are the property of the Federal government. The Operating Fund is considered the property of VSAC and may be used generally for all guaranty agency and other student financial aid related activities. The accounting for fees and expenditures under the FFEL program changed as described in notes 2(e), 5, 6, and 14. The balances as of June 30, 2000 reflect FFEL program results under the new requirements. Federal Fund assets are restricted in use and a VSAC liability is established to the U.S. Department of Education for the Federal Fund balance at year end.


(Continued)

The accompanying financial statements are presented in four distinct funds, each of which is considered a separate accounting entity.

**General Fund** - This fund is used to account for all financial transactions for Federal and State grant programs, the Guaranty Agency Operating Fund, and related administration and support services of VSAC. The Guaranty Agency Operating Fund (a fund required by The Higher Education Amendments of 1998) is considered the property of VSAC and may be used generally for all guaranty agency and other student financial aid related activities.

**Loan Finance Fund** - This fund is used to account for the operations of the Loan Finance Program. Revenues are derived from interest on student loans, U.S. Department of Education interest subsidies and special allowances, and investment earnings related to the issuance of VSAC's revenue bonds.

**Federal Loan Reserve Fund** - This fund is required by The Higher Education Amendments of 1998. The Federal Loan Reserve Fund assets and earnings on those assets are the property of the Federal Government. This fund is an agency fund and is represented in VSAC's financial statements on the balance sheet only. VSAC does not recognize any revenues or expenses for this fund.

**Vermont Higher Education Savings Plan** - This fund was established by the Vermont Legislature in April 1998. The plan was established to encourage Vermont residents to save for college or other post-secondary education through tax favorable investments. This fund is an agency fund and is represented in VSAC's financial statements on the balance sheet only. VSAC does not recognize any revenues or expenses for this fund.

## (2) Summary of Significant Accounting Policies

### *(a) Basis of Accounting*

VSAC follows the accrual basis of accounting whereby revenues are recorded when earned and expenses are recorded when obligation for payment is incurred.

In accordance with generally accepted accounting principles, VSAC applies all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as all Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 to the extent these pronouncements do not conflict with GASB pronouncements.

### *(b) Cash, Cash Equivalents and Investments*

VSAC considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Investments are comprised of short-term investments other than cash equivalents with original maturities of one year or less, and long-term investments with original maturities in excess of one year. Cash equivalents and investments are carried at fair value which approximates cost.

 (Continued)

***(c) Property and Equipment***

Property and equipment are stated at historical cost. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or estimated useful life of the asset.

***(d) Costs of Bond Issuances***

Costs of bond issuances, which are comprised of underwriters' discount, legal fees, and other related financing costs, are deferred and amortized over the lives of the respective bond issues using the straight-line method.

***(e) Amortization of Bond Premiums and Discounts***

Bond premiums and discounts are amortized using the interest method over the life of the bonds.

***(f) Fund Balances***

Restricted fund balances represent resources that can only be used for specific purposes as set forth under the terms of the underlying bond resolutions or by Federal or State statute.

***(g) Compensated Absences***

VSAC employees are granted vacation and sick pay in varying amounts as services are provided. Employees may accumulate, subject to certain limitation, unused vacation earned and, upon retirement, termination or death, may be compensated for certain amounts at their then current rates of pay. The amount of vacation recognized as expense is the amount earned.

***(h) Income Tax Status***

VSAC is exempt from Federal and state income taxes under Section 115 of the Internal Revenue Code.

***(i) Memorandum Only***

The "memorandum only" columns contain totals of similar accounts of the three funds. Since assets of certain funds are restricted by the related resolutions, totaling of these accounts is for illustrative purposes only and does not indicate the assets available in any manner other than provided for in the resolutions for the separate funds.



(Continued)

***(j) Reclassifications***

Certain items in the 1999 financial statements have been reclassified to conform with the current year presentation.

## (3) Cash, Cash Equivalents and Investments

VSAC's deposit and investment policy complies with the underlying bond resolution requirements. In accordance with those bond resolutions, all deposits and investments meet the requirements and approval of the letter of credit and bond insurance providers. Additionally, such requirements mandate specific classes of investment vehicles including: bank time deposits; certificates of deposit; direct obligations of the United States of America, unconditionally guaranteed by the United States of America; indebtedness issued by certain Federal agencies; collateralized repurchase agreements secured by obligations of the United States of America with collateral held by or at the direction of the trustee; guaranteed investment contracts with banks or bank holding companies; commercial paper and open ended investment funds.

The book balance of cash and cash equivalents totaled $248,145,014 at June 30, 2000. The bank balance of cash and cash equivalents totaled $249,156,060 at June 30, 2000, of which $100,946 was covered by Federal depository insurance (FDIC) and other insurance. The remaining cash and cash equivalents are held in either money market accounts or repurchase agreements that are backed by U.S. Government securities. Investments totaling $26,886,143 at June 30, 2000 were comprised primarily of U.S. treasury notes and guaranteed investment contracts. Investments were uninsured and unregistered, with securities held by an agent of the trustee, but not in VSAC's name. During the year, VSAC had balances in bank accounts, money market accounts, guaranteed investment contracts and U.S. treasury notes that were not fully insured or collateralized.

## (4) Student Loans Receivable - Loan Finance Fund

The Loan Finance Fund has outstanding student loans with annual interest rates ranging from 6.0% to 12.0% that are insured by the U.S. Department of Education and U.S. Department of Health and Human Services. There is an allowance for loan losses of $840,149 as of June 30, 2000.

Student loans are classified as being in "interim" status during the period from the date the loan is made until a student is out of school either for six or nine months. Subsequent to this period, student loans are classified as being in "repayment" status. "Deferral" status is a period during the life of the loan when repayment is suspended for authorized purposes.

 (Continued)

Student loans receivable, before allowance for loan losses, are summarized as follows as of June 30, 2000:

| | | |
|---|---|---|
| **Status:** | | |
| Interim status | $ | 172,397,098 |
| Deferral status | | 104,980,596 |
| Repayment status | | 484,036,024 |
| | $ | 761,413,718 |
| **Guarantee Type:** | | |
| Department of Education | $ | 722,862,048 |
| Department of Health and Human Services | | 19,709,508 |
| Other | | 18,842,162 |
| | $ | 761,413,718 |

## (5) Federal Reinsurance

Under its contract with the U.S. Department of Education, the Loan Guarantee program is reimbursed for payments to participating lending institutions on defaulted loans based upon a reimbursement formula ranging from 75% to 100% of the unpaid balance of the principal plus accrued interest on the insured loss. For loans originated between October 1, 1993 and September 30, 1998 the reimbursement formula ranges from 78% to 98% and for loans originated on or after October 1, 1998 the reimbursement formula ranges from 75% to 95%. The level of reinsurance is determined by calculating current year default claims paid as a percentage of loans in repayment at the end of the preceding federal fiscal year. VSAC received the highest reinsurance rate allowed by this formula during 2000.

## (6) Student Loan Guarantee Reserves

To provide security and liquidity against potential defaults, VSAC is required to maintain reserves as specified by Title 16, Vermont Statutes Annotated §2864, Section 422 of Act 20 United States Code 1072, and under various agreements with the bond liquidity and credit enhancement institutions. The Higher Education Amendments of 1998 require VSAC to maintain reserves equal to .25% of loans guaranteed. During 2000, VSAC maintained sufficient reserves to fully comply with these requirements.

The Tax Reform Act of 1997 called for the recall of reserves from all Federal Family Education Loan Program Guarantors. The recall requires setting aside reserve funds in four equal annual installments beginning in December 1998. The transfer to the U.S. Treasury will occur September 30, 2002. Effective October 1, 1998, the reserve funds are included in the Federal Loan Reserve Fund.



(Continued)

## (7) Student Loan Interest and Special Allowance Revenues

Interest on student loans is accrued when earned. The U.S. Department of Education makes quarterly interest subsidy payments on behalf of certain qualified students until the student is required under the provisions of the Act to begin repayment. Repayment on Stafford Student Loans normally begins within six months after students complete their course of study, leave school or cease to carry at least one-half the normal full-time academic load as determined by the educational institution. Repayment of PLUS, SLS and Consolidation loans normally begins within sixty days from the date of loan disbursement unless a deferment of payments has been granted. In these cases, full repayment of principal and interest would resume at the expiration of the deferment. Interest accrues during this deferment period. HEAL loans enter repayment status nine months after the expiration date of an interim period.

The U.S. Department of Education provides a special allowance to lenders participating in the Stafford, PLUS, SLS and Consolidation student loan programs. Special allowance is paid based on a rate that is established quarterly. For loans first disbursed before January 1, 2000, the rate is based on the average rate established in the auction of the thirteen-week U.S. Treasury bill, plus a predetermined factor, less the interest rate on the loan. For loans first disbursed on or after January 1, 2000 financed with obligations issued after October 1, 1993, the rate is based on the average rate established in the auction of three-month Financial Commercial Paper, plus a predetermined factor, less the interest rate on the loan. Loans made or purchased with funds obtained through the issuance of tax-exempt obligations issued before October 1, 1993 are eligible for one-half of the special allowance rate, subject to a minimum return of 9.5%. Loans originated or purchased after October 1, 1993 are eligible for full special allowance and are not subject to a minimum return.

## (8) Federal Advances

The liability for Federal advances of $538,194 includes advances received under Section 422(A), $101,968, and Section 422(C), $436,226. This liability represents a segregation of Federal "seed money" which was advanced for the HEA Program. The advances are subject to recall by the Federal government.

## (9) Property and Equipment

A summary of property and equipment at June 30, 2000 is as follows:

| | Estimated Lives | General Fund | Loan Finance Fund |
|---|---|---|---|
| Furniture and equipment | 5-10 years | $ 3,520,969 | — |
| Leasehold improvements | 5 years | 763,651 | — |
| Software | 3- 5 years | 331,900 | 3,802,175 |
| | | 4,616,520 | 3,802,175 |
| Less accumulated depreciation and amortization | | 1,977,144 | 1,920,000 |
| Net property and equipment | | $ 2,639,376 | 1,882,175 |

## (10) Bank Line of Credit

VSAC has a line of credit agreement with a commercial bank, which provides for maximum borrowings of up to $3,000,000. The line of credit is unsecured, bears interest at the prime interest rate and is renewed annually. There were no borrowings outstanding under this line of credit agreement at June 30, 2000.

## (11) Designated Fund Balances

Designated fund balances of $7,865,700 represents amounts designated to provide funding of cost of issuance fees, remarketing and line of credit fees as well as equity contributions pertaining to future bond issuances.

## (12) Bonds and Notes Payable - Loan Finance Fund

VSAC has issued the following bonds and notes outstanding at June 30, 2000, which were issued to finance student loans:

| | |
|---|---|
| 1985 Series A, dated December 27, 1985; comprised of floating rate monthly demand bonds that mature in increments through January 2004; interest is payable monthly at variable rates which ranged from 3.4% to 4.55% in 2000. | $ 49,000,000 |
| 1991 Series A, dated May 15, 1991; comprised of serial bonds maturing in increments between December 15, 1998 and December 15, 2000; interest is payable semi-annually at fixed rates ranging from 6.35% to 6.50%. | 3,115,000 |
| 1992 Series A-2 and A-3, dated June 15, 1992; comprised of serial and auction variable rate bonds maturing in increments between June 15, 1999 and December 15, 2005; interest on Series A-2 is paid every 35 days at rates which ranged from 3.47% to 4.40% during 2000; interest on Series A-3 bonds is paid semi-annually at fixed rates ranging from 5.8% to 6.5%. The face amount of the bonds payable is $65,515,000 and $69,938 of unamortized discount has been netted against the liability. | 65,445,062 |
| 1992 Series B and C, dated July 15, 1992; comprised of term, serial, and auction variable rate bonds maturing in increments between June 15, 2003 and December 15, 2012; interest on Series B is paid semi-annually at fixed rates ranging from 6.0% to 6.7%; interest on Series C bonds is paid every 35 days at rates which ranged from 3.52% to 4.97% during 2000. The face amount of the bonds payable is $50,000,000 and $405,754 of unamortized premium has been added to the liability. | 50,405,754 |



(Continued)

| | | |
|---|---|---|
| 1993 Series D and E, dated June 22, 1993; comprised of term, serial, and auction variable rate bonds maturing in increments between December 15, 2003 and June 15, 2012; interest on Series D is paid semi-annually at fixed rates ranging from 5.3% to 9.5%; interest on Series E bonds is paid every 35 days at rates which ranged from 3.45% to 5.00% during 2000. The face amount of the bonds payable is $80,000,000 and $554,760 of unamortized premium has been added to the liability. | $ | 80,554,760 |
| 1993 Series F, G, H, I and J, dated September 27, 1993; comprised of auction variable rate bonds maturing in increments between December 21, 2005 and December 15, 2015. Interest is reset every 35 days and payable semi-annually at rates which ranged from 3.20% to 4.60% during 2000. | | 122,500,000 |
| 1995 Series A, B, C and D, dated June 27, 1995; comprised of auction variable rate bonds maturing December 2025; interest is reset every 35 days and payable semi-annually at rates which ranged from 3.25% to 5.07% during 2000. | | 96,000,000 |
| 1995 Series E, dated October 17, 1995; comprised of auction variable rate bonds maturing December 2002; interest is reset every 35 days and payable semi-annually at rates which ranged from 3.18% to 4.55% during 2000. | | 19,300,000 |
| 1996 Series F, G, H and I, dated May 22, 1996; comprised of auction variable rate bonds maturing February 2036; interest is reset every 35 days and payable semi-annually at rates which ranged from 3.35% to 4.60% during 2000. | | 100,000,000 |
| 1996 Series J, dated October 23, 1996; comprised of auction variable rate bonds maturing December 2002; interest is reset every 35 days and payable semi-annually at rates which ranged from 3.35% to 4.90% during 2000. | | 12,850,000 |
| 1998 Series K-O, dated June 16, 1998; comprised of auction variable rate bonds maturing December 2032; interest is reset every 35 days and payable semi-annually; at rates which ranged from 3.25% to 5.05% during 2000. | | 165,000,000 |
| 2000 Series P and Q, dated May 31, 2000; comprised of auction variable rate bonds maturing in increments between December 15, 2002 and December 15, 2005. Interest is reset every 35 days and payable semi-annually; initial rates ranged from 4.35% to 4.5% | | 22,950,000 |



(Continued)

| | | |
|---|---|---|
| 2000 Series R, S, T and U, dated May 31, 2000; comprises of auction variable rate bonds maturing December 15, 2034. Interest is reset every 35 days and payable semi-annually; initial rates ranged from 4.47% to 4.50%. | $ | 172,550,000 |
| VSAC has the following notes outstanding at June 30, 2000: | | |
| 1997 Series A-V, dated December 15, 1997; principal and interest at 4.55%, due December 15, 2000. | | 8,430,000 |
| 1998 Series A-VII, dated December 15, 1998, principal and interest at 4.1%, due December 15, 2000. | | 7,155,000 |
| 1999 Series A-IX, dated June 15, 1999, principal and interest at 4.50%, due December 15, 2000. | | 5,785,000 |
| 2000 Series A-X, dated June 15, 2000, principal and interest at 4.80%, due December 15, 2000 | | 3,015,000 |
| Bonds and notes payable | $ | 984,055,576 |

All bonds are limited obligations of VSAC and are secured, as provided in underlying bond resolutions, by an assignment and pledge to the trustee of all VSAC's rights, title and interest in student loans and revenues derived therefrom and the guarantee thereof, including the reinsurance of the student loans by the U.S. Department of Education. The 1985 Series A bonds are secured for credit-worthiness and liquidity by an irrevocable letter of credit issued by State Street Bank. The 1991 Series A, 1995 Series A, B, C, D and E, 1996 Series F, G, H, I and J, and 1998 Series K-O, Series P-Q and 2000 Series R-U bonds are secured for credit-worthiness by AMBAC Indemnity Corporation. The 1992 Series A-2, and A-3, 1992 Series B and C, 1993 Series D and E, and 1993 Series F, G, H, I and J bonds are secured for credit-worthiness by Financial Security Assurance Corporation. All bonds are subject to redemption prior to maturity at the principal amounts outstanding plus accrued interest at date of redemption. At June 30, 2000 all bonds authorized under the underlying bond resolutions have been issued.

Proceeds from issuance of the bonds and all revenues related to them are restricted as follows: repurchase bonds; finance student loans; pay interest on the bonds; maintain required reserves; and pay reasonable and necessary program expenses in carrying out the Loan Finance Program.

The future maturities of debt are as follows:

| **Year ending June 30:** | | |
|---|---|---|
| 2001 | $ | 40,225,000 |
| 2002 | | 12,620,000 |
| 2003 | | 52,670,000 |
| 2004 | | 15,050,000 |
| 2005 | | 14,860,000 |
| Thereafter | | 847,740,000 |
| | $ | 983,165,000 |



(Continued)

During the year ended June 30, 2000, VSAC issued the 1999 Series A-IX note totaling $17,520,000 and the 2000 Series A-X note totaling $3,015,000 to refund the scheduled principal maturities of the 1985 Series A bonds, the 1991 Series A bonds, the 1992 Series A bonds and the 1998 Series A-VIII note of $3,900,000, $5,935,000, $3,995,000 and $6,705,000, respectively. On May 31, 2000, $11,735,000 of the 1999 A-IX note, $3,400,000 of the 1997 A-V note, $3,700,000 of the 1998 A-VII note, and $4,115,000 of the Series 1992 A bonds were refunded into the 2000 Series P-Q bond. Based on the terms of the old and new debt, these refundings are estimated to result in additional interest payments in fiscal year 2001 of $4,233,214. All notes mature in December 2000.

## (13) Rebates Payable

The Vermont Value Program began in 1995. This program allows for an annual student rebate of interest equal to 1% of the outstanding principal on student loans. During 1997, VSAC extended the Vermont Value Program to include an interest rebate on all unsubsidized Stafford and PLUS loans. In fiscal years 1999 and 2000, the Vermont Value Program rebates were applied to the borrower's accounts in June 2000; therefore, there is no payable at June 30$^{th}$ for either fiscal year.

In connection with VSAC's tax exempt bond issues, VSAC is subject to rebatable arbitrage when bond proceeds are invested in investments and student loans. The amount accrued for U.S. Treasury rebates payable at June 30, 2000 represents the estimated amount of arbitrage rebates due to the Federal government for excess earnings on the bond proceeds.

## (14) Federal Loan Reserve Fund Liability

Under the Higher Education Amendments of 1998 all liquid and non-liquid assets related to the FFEL program guaranty functions were transferred to the Federal Loan Reserve Fund (Federal Fund) on October 1, 1998. The Federal Fund is administered by VSAC on behalf of the ED and is the property of the Federal government. VSAC also established the Guarantee Agency Operating Fund on October 1, 1998 in accordance with the Higher Education Amendments of 1998.

The net assets in the Federal Fund are shown in the financial statements as a liability to the ED. The following shows the activity in the Federal Fund from July 1, 1999 to June 30, 2000. The amount payable to ED for the federal recall and the federal advance were transferred separately and are not included in the following information.

| | | |
|---|---|---|
| Federal Reserve Fund Liability at June 30, 1999 | $ | 4,437,521 |
| Reimbursement from ED on default loan purchases | | 7,478,222 |
| Default loan collections | | 14,388 |
| Loan administrative fees | | 1,113,447 |
| Investment income | | 437,141 |
| Purchases of default loans from lenders | | (7,559,140) |
| Default Aversion Fee | | (593,705) |
| Other expenses | | (57,370) |
| Federal revenue fund liabilities of June 30, 2000 | $ | 5,270,504 |

## (15) Retirement Benefits

Full-time employees of VSAC that meet specific eligibility requirements are participants in a retirement annuity plan. This plan is a multi-employer defined contribution plan sponsored by Teachers Insurance and Annuity Association and College Retirement Equities Fund (TIAA/CREF). The payroll for employees covered under the plan for the fiscal year ended June 30, 2000 amounted to $7,110,060; VSAC's total payroll was $10,332,291. Total contributions by VSAC amounted to $711,006 in 2000, which represented 10% of the covered payroll.

## (16) Assets Managed on the Behalf of Others

The Vermont Higher Education Savings Plan (VHESP) was established by the Vermont Legislature in April 1998. VHESP encourages Vermont residents to save for college or other post-secondary education through tax favorable investments. There are two plans available: the Managed Allocation Option and the Interest Income Option. The Managed Allocation Option is managed by TFI. TFI is part of TIAA-CREF, a New York-based financial services organization. Funds in the Managed Allocation Option are directed into special investment portfolios based on the age of the beneficiary. Investments in this option are not guaranteed. The Interest Income Option is managed by VSAC. Funds in the Interest Income Option are invested in an interest-bearing note to VSAC, which is expected to return at least the 91-day U.S. Treasury Bill rate. VSAC uses the note to make federally guaranteed education loans. Assets managed on behalf of others represents VHESP participant deposits and earnings as of June 30, 2000.

## (17) Commitments Under Operating Lease

VSAC has entered into two noncancellable operating leases for its office facilities that expire in 2002 and 2004. Both leases provide for renewal options. Rental expense for the year ended June 30, 2000 amounted to $400,596. The following is a summary of future minimum rental commitments under these noncancellable operating leases:

| Year ending June 30: | | |
|---|---|---|
| 2001 | $ | 561,244 |
| 2002 | | 319,612 |
| 2003 | | 203,196 |
| 2004 | | 159,012 |
| | $ | 1,243,064 |

## (18) Contingencies

VSAC participates in various federally funded programs. These programs are subject to financial and compliance audits and resolution of identified questioned costs. The amount, if any, of expenditures which may be disallowed by the granting agency cannot be determined at this time.

VSAC is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. VSAC manages these risks through a combination of commercial insurance packages purchased in the name of VSAC, and beginning July 1, 1996 through self insurance programs for medical and dental claims. With respect to its commercial insurance packages, VSAC has not experienced settled claims resulting from these risks which have exceeded its commercial insurance coverage. VSAC has purchased stop-loss insurance for its self insurance programs and has transferred the risk of loss to the commercial insurance carrier.

Reserves for self insured medical and dental liabilities are included in accounts payable and other liabilities in the amount of $130,806 at June 30, 2000.